

Message Text

CONFIDENTIAL

PAGE 01 STATE 155932
ORIGIN EUR-12

INFO OCT-01 ISO-00 MC-02 PM-04 DODE-00 CIAE-00 INR-07
L-03 ACDA-07 NSAE-00 PA-01 SS-15 PRS-01 SP-02
USIA-06 TRSE-00 EB-07 COME-00 /068 R

DRAFTED BY OSD/ISA:JMILLER
APPROVED BY EUR/RPM:EREHFELD
OSD/ISA - GEN. BOWMAN
OSD/DSAA - MR. HOENIG
OSD/GC - MR. FORMAN
OSD/COMPT - MR. SAYLOR
PM/MC - MR. FEMMINELLA

-----063546 060138Z /65

R 052223Z JUL 77
FM SECSTATE WASHDC
TO USMISSION NATO

C O N F I D E N T I A L STATE 155932

E.O. 11652:GDS

TAGS: MARR, NATO

SUBJECT: NICSMA COMPLAINTS OF US GOVERNMENT CONSTRAINTS
OF NICS TARE CONTRACT

REF: USNATO 5246

1. THE 7 PERCENT INCREASE IN ALL NEW NICS TARE WORK,
IDENTIFIED IN REFTEL, RESULTS FROM CORRECTION IN
THE ALLOCATION OF G AND A (GENERAL AND ADMINISTRATIVE)
OVERHEAD COSTS OF LITTON. THE DEFENSE CONTRACT
ADMINISTRATION SERVICES (DCAS) FOUND THAT A SUBSTANTIAL
AMOUNT OF FOREIGN MARKETING EXPENSES WAS IMPROPERLY
ALLOCATED BY LITTON TO US GOVERNMENT DOMESTIC SALES.
AS A RESULT, FOREIGN SALES BY LITTON WERE BEING
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 155932

SUBSIDIZED BY DOMESTIC US GOVERNMENT PURCHASES. THE
DCAS ALSO REQUIRED THAT A CORRESPONDING DECREASE BE
MADE IN G&A APPLIED BY LITTON TO DOMESTIC US SALES.
THE DCAS FINDINGS CAME TOO LATE TO APPLY TO THE
NICS TARE CONTRACT - FOR 12 TARES AND OPTION FOR SEVEN
MORE TARES - AND THEREFORE IS NOT APPLICABLE TO THIS
CONTRACT, BUT THE 7 PERCENT INCREASE IN G&A WILL

APPLY TO ALL NEW TARE WORK.

2. FYI. THESE FINDINGS WERE RELATED TO THE COST ACCOUNTING CHANGES GENERATED BY THE COST ACCOUNTING STANDARDS BOARD (CASB) ISSUANCE 410, "ALLOCATION OF BUSINESS UNIT GENERAL AND ADMINISTRATIVE EXPENSES TO FINAL COST OBJECTIVE", WITH EFFECTIVE DATE OF OCTOBER 1, 1976. THE CASB IS AN INTERAGENCY GROUP, CHAIRED BY THE GAO. ITS ISSUANCES ARE PUBLISHED IN THE FEDERAL REGISTER, AND ARE ENFORCEABLE THE SAME AS PUBLIC LAW. THIS CASB ISSUANCE WAS IMPLEMENTED IN ASPR BY DCP 76-4, PARAGRAPH 6-1304.3, DATED 7 SEPTEMBER 1976. BASICALLY, THIS NEW COST ACCOUNTING PROCEDURE DOES NOT ADD NEW ELEMENTS OF COST, IT ONLY REDISTRIBUTES THEM BETWEEN DOMESTIC AND OVERSEAS SALES. FOR EXAMPLE, THE ASPR PARA 6-1304.3 REQUIRES THAT FMS PRICES INCLUDE COSTS OF DOING BUSINESS WITH FOREIGN GOVERNMENTS, SUCH AS SELLING EXPENSES (TO INCLUDE MAINTAINING INTERNATIONAL SALES AND SERVICE ORGANIZATIONS, SALES COMMISSIONS AND FEES, SALES PROMOTIONS AND DEMONSTRATIONS, RELATED TECHNICAL SERVICES, ETC); PRODUCT SUPPORT AND POST DELIVERY SERVICE EXPENSES (TO INCLUDE OPERATIONS AND MAINTENANCE TRAINING, OTHER TRAINING, TECHNICAL FIELD STUDIES); COSTS ASSOCIATED WITH IMPLEMENTATION OF DOD OFFSET

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 155932

AGREEMENTS; AND COSTS THAT ARE THE SUBJECT OF ADVANCE UNDERSTANDING BETWEEN THE US AND FOREIGN CUSTOMER.

3. WE HAVE NO INFORMATION AVAILABLE AS TO HOW MANY CONTRACTORS ARE ALREADY FOLLOWING THIS PRACTICE, BUT INDICATION IS THAT SOME ARE. SINCE IT IS APPLICABLE TO ALL CONTRACTORS FOR FMS AND COMMERCIAL OVERSEAS SALES, WE CAN EXPECT AN INCREASE (THE PERCENTAGE WILL VARY FROM CONTRACTOR TO CONTRACTOR) IN THE FUTURE AS CONTRACTORS IMPLEMENT THIS NEW COST ACCOUNTING PRACTICE. IN VIEW OF OUR NATIONAL POLICY REGARDING NATO CORRECTION AND STANDARDIZATION, WE ARE REQUESTING OUR DEFENSE CONTRACT AUDIT AGENCY AND THE DEFENSE CONTRACT ADMINISTRATION SERVICE TO TAKE A CLOSE LOOK AT ALL OVERHEAD ALLOCATIONS TO BE CERTAIN THAT OUR ALLIES ARE NOT BEING OVERCHARGED IN

FAVOR OF OTHER "FOREIGN" COUNTRIES. END FYI.

4. YOU SHOULD ADVISE NICSMA THAT THE 7 PERCENT INCREASE RESULTS FROM A JOINT LITTON/DEFENSE CONTRACT ADMINISTRATION SERVICES EFFORT TO PROPERLY ALLOCATE

OVERHEAD EXPENSES TO OVERSEAS ACTIVITIES, WHICH IS

MORE IN KEEPING WITH ACCEPTABLE COST ACCOUNTING PROCEDURES. THIS INCREASE IS APPLICABLE TO ALL LITTON OVERSEAS SALES (FMS AND COMMERCIAL).

5. LITTON ADVISES THAT THEIR OVERSEAS REPRESENTATIVE HAS BEEN REQUESTED TO CONTACT MISSION TO FURTHER EXPLAIN THIS MATTER AND RESPOND TO ANY QUESTIONS

WHICH NICSMA MAY HAVE.

6. PLEASE ALSO INFORM NICSMA IN REPLY TO LETTER QUOTED IN PARA 2 OF REFTEL THAT PART 124 OF CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 155932

INTERNATIONAL TRAFFIC IN ARMS REGULATIONS REQUIRES PRIOR APPROVAL OF THE DEPARTMENT OF STATE BEFORE ANY U.S. CORPORATION CAN ENTER INTO A TECHNICAL ASSISTANCE AGREEMENT RELATING TO ARTICLES ON THE U.S. MUNITIONS LIST WITH ANY FOREIGN ENTITY INCLUDING AN INTERNATIONAL ORGANIZATION. THIS REQUIREMENT HAS BEEN IN EFFECT FOR MANY YEARS. THE EXPORT LICENSE AUTHORIZES LITTON TO EXPORT HARDWARE, WHILE ADDITIONAL APPROVAL FOR TECHNICAL ASSISTANCE AGREEMENTS IS REQUIRED UNDER PROVISIONS OUTLINED ABOVE. WE EXPECT NO DIFFICULTIES IN OBTAINING SUCH APPROVAL.

VANCE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ELECTRONIC EQUIPMENT, CONTRACTS, MILITARY COMMUNICATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 05-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE155932
Document Source: CORE
Document Unique ID: 00
Drafter: JMILLER
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770238-1213
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770790/aaaadata.tel
Line Count: 150
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f2dbb370-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 31-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1962850
Secure: OPEN
Status: NATIVE
Subject: NIC SMA COMPLAINTS OF US GOVERNMENT CONSTRAINTS OF NICS TARE CONTRACT
TAGS: MARR, NATO, DCAS
To: NATO BRUSSELS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/f2dbb370-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009